

MEETING OF THE TRUSTEES

CITY OF CHATTANOOGA GENERAL PENSION PLAN

May 19, 2011

The regular meeting of the City of Chattanooga General Pension Plan was held on May 19, 2011 at 8:45 a.m. in the J. B. Collins Conference Room. Trustees present were Daisy Madison, Katie Reinsmidt, Dan Johnson and Terry Lamb. Others attending the meeting were Valerie Malueg, City Attorney's Office; Teresa Laney, First Tennessee Bank; Greg Stump, EFI; Scott Arnwine and Yoon Lee, CSG; Todd Gardenhire, Morgan Stanley Smith Barney; Madeline Green and Douglas Kelley, City Personnel Department.

The meeting was called to order by Chairwoman Daisy Madison. A quorum was present.

The minutes of the meeting held March 17, 2011 were approved.

The following benefit and plan expenses were discussed for approval:

PART I – PARTICIPANT SUMMARY

SUMMARY OF PENSION APPLICATIONS

<u>NAME</u>	<u>DEPARTMENT</u>	<u>TYPE/OPTION</u>	<u>MONTHLY AMOUNT</u>	<u>EFFECTIVE DATE</u>
Dumas, Lebron	Parks & Recreation	Rule of 80- Option A	\$1,156.07	May 1, 2011
Erwin, Linda D. (Formerly Vested)	Finance	Normal- No Option Elected	\$407.33	May 1, 2011
McEnaney, Helen Byrne	Public Works	Normal- No Option Elected	\$528.49	May 1, 2011
Moore, Sandra	Human Services	Normal- No Option Elected	\$1,186.25	April 1, 2011
Schiavon, Dennis	Fire	Normal- Option A	\$2,313.24	April 1, 2011
Smith, Lillian (Formerly Vested)	Finance	Immediate Early- Option A	\$837.03	May 1, 2011
Welton, John Allen (Three-Year DROP-\$66,097.29)	Public Works	Rule of 80- Option D	\$1,452.80	May 1, 2011

BENEFIT REVISIONS/CONVERSIONS-PENDING BOARD REVIEW/APPROVAL

<u>NAME</u>	<u>TYPE/OPTION</u>	<u>PREVIOUS AMOUNT APPROVED BY BOARD</u>	<u>REVISED AMOUNT</u>	<u>EFFECTIVE DATE</u>
-------------	--------------------	--	-----------------------	-----------------------

No activity

SELECTION OF OPTIONAL BENEFIT REPORT – VESTED OR AGE 62 AND OLDER PARTICIPANTS

<u>NAME</u>	<u>OPTION</u>	<u>DATE</u>
Cantrell, Alfred	Option B	April 5, 2011
Deal, Danny	Option B	April 7, 2011
Skinner, Charles	Option A	March 28, 2011
Woodley, Johnny	Option B	May 17, 2011

DISABILITY BENEFIT REPORT

<u>NAME</u>	<u>MONTHLY DISABILITY BENEFIT AMOUNT</u>	<u>EFFECTIVE DATE</u>
Moore, Jeff	\$1,551.05	January 8, 2011

LUMP SUM DISTRIBUTIONS (FOR RATIFICATION-CHECKS PROCESSED)

<u>NAME</u>	<u>DEPARTMENT</u>	<u>EMPLOYEE NUMBER</u>	<u>TERMINATION DATE</u>	<u>REFUND AMOUNT</u>
Bates, Derek	Public Works	56867	March 16, 2011	\$1,006.53
Bevering, Bart	General Government	63109	February 18, 2011	\$3,214.31
Campbell, Christopher	Police	63114	January 20, 2011	\$1,366.32
Horton, Jeremy	Library	65665	April 30, 2011	\$822.11
James, Amanda	Parks & Recreation	64454	March 10, 2011	\$1,192.13
Jennings, Dillon	Public Works	65215	April 21, 2011	\$1,011.77
Lewis, Patti	Human Services	66705	March 10, 2011	\$254.73
Parker, Lucretia	Police	65820	February 15, 2011	\$55.26
Smith, Elizabeth	Human Services	43290	January 14, 2011	\$3,205.23
Todd, Michael	Parks & Recreation	36653	April 21, 2011	\$13,974.09
Watts, Michael D.	Public Works	66734	February 25, 2011	\$137.68
Youells, Dottie	Human Services	67121	March 15, 2011	\$18.60
TOTAL				\$26,258.76

PART II – ACCOUNT SUMMARY

ACCOUNTS PAYABLE

<u>COMPANY</u>	<u>AMOUNT PAID</u>		<u>PURPOSE</u>
	<u>THIS PERIOD</u>	<u>FYTD</u>	
FIRST TENNESSEE BANK	\$26,765.33		General Pension Plan expense for quarter ending March 31, 2011
COMPANY TOTAL	\$26,765.33	\$154,735.77	

INVESTMENT MANAGERS (does not include direct bill thru Custodian)

<u>COMPANY</u>	<u>AMOUNT PAID</u>		<u>PURPOSE</u>
	<u>THIS PERIOD</u>	<u>FYTD</u>	
ATALANTA SOSNOFF	\$35,419.00		Investment management expense for quarter ending March 31, 2011
DUFF & PHELPS INVESTMENT MANAGEMENT COMPANY	\$13,884.00		Investment management expense for quarter ending March 31, 2011
INSIGHT	\$15,480.95		Investment management expense for quarter ending March 31, 2011
NWQ INVESTMENT MANAGEMENT COMPANY	\$27,947.82		Investment management expense for quarter ending March 31, 2011
PATTEN AND PATTEN	\$9,586.13		Investment management expense for quarter ending March 31, 2011
SMH CAPITAL ADVISORS	\$8,005.72		Investment management expense for quarter ending March 31, 2011
WEDGE CAPITAL	\$21,879.11		Investment management expense for quarter ending March 31, 2011
.			
MANAGER TOTAL	\$132,202.83	\$478,791.82	

ACCOUNTS PAYABLE – INVESTMENT MANAGERS (REVISION)

No Activity

ACCOUNTS RECEIVABLE

<u>COMPANY</u>	<u>AMOUNT RECEIVED</u>	<u>PURPOSE</u>
No activity		

REPORT OF ACCOUNT(S) PAID

<u>COMPANY</u>	<u>AMOUNT PAID</u>		<u>PURPOSE</u>
	<u>THIS PERIOD</u>	<u>FYTD</u>	
THE HARTFORD	\$8,663.25		Long-Term Disability (50%) – Mar. 2011
THE HARTFORD	\$8,723.72		Long-Term Disability (50%) – Apr. 2011
THE HARTFORD	\$8,730.57		Long-Term Disability (50%) – May 2011
LTD TOTAL	\$26,117.54	\$100,209.11	

OPEB TRUST

PART I – ACCOUNT SUMMARY

ACCOUNTS PAYABLE

<u>COMPANY</u>	<u>AMOUNT PAID</u>		<u>PURPOSE</u>
	<u>THIS PERIOD</u>	<u>FYTD</u>	
FIRST TENNESSEE BANK	\$1,589.84		Custodial services for quarter ending March 31, 2011
COMPANY TOTAL	\$1,589.84	\$36,245.49	

INVESTMENT MANAGERS (does not include direct bill thru First Tennessee)

ATALANTA SOSNOFF	\$1,939.00		Investment management fee for quarter ending March 31, 2011
MANAGER TOTAL	\$1,939.00	\$6,449.00	

ACCOUNTS RECEIVABLE

<u>COMPANY</u>	<u>AMOUNT PAID</u>		<u>PURPOSE</u>
	<u>THIS PERIOD</u>	<u>FYTD</u>	

No Activity

Administrative Issues

Daisy Madison reviewed the transfer of the following funds due to benefit obligations, capital call and miscellaneous expenses of the Plan:

- Atalanta Sosnoff - \$45,000.00
- Duff & Phelps - \$500,000.00
- NWQ - \$16,500.00
- Seix High Yield - \$700,000.00

Ms. Madison summarized the cash flow issue to the Board related to benefit distributions, capital calls and miscellaneous expenses. Teresa Laney reported that monthly retirement distributions exceed \$1,000,000.00 and monthly contributions into the Plan run from \$300,000.00 to \$400,000.00. Scott Arnwine mentioned that the Board normally approves a transfer of funds between \$3 million and \$4 million for these items each quarter. He will make a formal recommendation for the next Board meeting.

On the motion of Katie Reinsmidt and seconded by Terry Lamb, the Board approved the minutes of their March 17, 2011 meeting, the May 19, 2011 administrative issues (including OPEB) and the transfer of funds reviewed by Daisy Madison. Dan Johnson previously approved these actions prior to leaving to attend another meeting.

Consulting Services Group

Scott Arnwine and Yoon Lee presented the first quarter performance review to the Board. Mr. Arnwine reported that the first quarter of 2011 was very strong for the Plan. Total funds increased 4.7% even though the quarter was volatile in the financial markets. For the past year, the total fund has increased 15.6%, double the actuarial assumption of 7.8%. He reported that the small cap equity managers outperformed the large cap equity managers for the quarter. The hedge fund managers also did well, but the three and five year returns were still below the actuarial assumptions.

Ms. Lee reviewed the performance of the large and small cap equity managers. INSIGHT and THP had a great first quarter by outperforming their benchmarks by 720 and 510 basis points respectively. PATTEN & PATTEN succeeded for the quarter by their sector allocation and security selection that helped their overall portfolio. NWQ underperformed for the quarter due to their holdings in energy, information technology and materials. ATALANTA SOSNOFF underperformed for the quarter due to their holdings in consumer discretionary, financials and healthcare, particularly in the domestic automobile manufacturing sector. WEDGE outperformed by 200 basis points, particularly in the energy sector. INSIGHT was strong performer in the quarter due to their security selection, particularly in the information technology sector. THORNBURG outperformed during the quarter with their returns up 4.2%, even though their international holdings exceed 10% in Japan (earthquake and tsunami in March 2011).

Daisy Madison and Terry Lamb questioned specifics of ATALANTA SOSNOFF's overall performance. Mr. Arnwine stated that ATALANTA SOSNOFF is approaching their third year (two years and one quarter through March 2011) of not meeting their benchmark. He stated their performance will be monitored over the next quarter or two and he will report to the Board on their status.

Mr. Arnwine reported that the alternative managers (including private equity and real estate) performed well for the quarter. Fixed income managers also performed well. Brandywine more than doubled their benchmark (returns primarily due to currency rates).

Mr. Arnwine reported the OPEB Trust was up 2.4% for the quarter and 12% for the past year.

Report from Counsel

Valerie Malueg reviewed additional changes to the Statement of Investment Objectives. Mr. Arnwine confirmed that CSG reviews with each manager the investment policy approved by the Board based on a question from Mr. Lamb concerning lower grade investment bonds. On motion by Terry Lamb and seconded by Katie Reinsmidt, the Board approved the Statement of Investment Objectives. Dan Johnson previously approved this action prior to leaving to attend another meeting.

EFI Actuaries

Greg Stump with EFI presented the January 1, 2011 valuation results to the Board. The actuarial accrued liability (AAL) increased from \$266 million on January 1, 2010 to \$278 million, an increase of 12%. The actuarial value of assets (AVA) increased from \$237 million to \$240.5 million, an increase of 3.1%. Mr. Stump stated there are no surprises in that the funding ratio is decreasing and the contribution rate is increasing as a result of the asset smoothing policy (recognizing losses over past ten years). The

AVA/AAL ratio as of January 1, 2011 is 86.5%, a decrease of 2.7% from January 1, 2010 (89.2%). The asset smoothing policy is currently over a ten year period within a 70%-130% corridor. Ms. Madison inquired about the thirty year amortization policy. It was stated during a recent meeting of the Fire and Police Pension Fund Board that the thirty year amortization schedule would no longer be acceptable. Mr. Stump stated that there are tentative changes in GASB accounting rules that would shorten the amortization period (ten years) with possible implementation in 2013.

Mr. Stump reviewed the projected funding progress for the next ten years. The asset funding target is projected to decrease from the current 87% to around 80% as a result of the long amortization period. Mr. Stump stated that it would be a good idea to implement a closed amortization period. This would result in the funding target increasing over time. This is an item to discuss in 2012. Changing to a closed period now would have no impact unless the Board changed the number of years. The current policy for funding is to increase city contributions rates by at least 20% each fiscal year. Ms. Madison reiterated that the Board's policy is to approve the actuarially recommended contribution rates to the city for funding.

Mr. Stump reviewed possible changes in the GASB accounting rules. The amortization schedule would be closer to ten years as previously mentioned. The asset smoothing policy would be within a 15% corridor. There is the possibility of adjustments in the entry age cost method. Any changes would increase costs, but the contribution policy currently in place could remain.

Mr. Stump recommended that the city's contribution rate for fiscal year 2012 increase to 12.95% of participant's pay. The Board deferred approval of this rate until their next meeting.

The next Board meeting is scheduled for June 16, 2011 at 11:30 a.m. in the J. B. Collins Conference Room.

There being no further business, the meeting was adjourned.

Chairman

APPROVED:

Secretary